

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

BANGOR HOUSING COMMISSION

Financial Statements

September 30, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Opinion	i
Management Discussion and Analysis	ii
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets	2
Statement of Revenue, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	10
Combining Statement of Income and Expenses	11
Status of Prior Audit Findings	12
Report on Compliance with Specific Requirements Applicable to Non Major HUD Program Transactions	13
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14
Schedule of Findings and Questioned Cost	16
Findings: 1) Segregation of Duties	17
2) Excess Tenants Accounts Receivable	18
3) Tenant Accounting Discrepancies	19
4) Policies out of Date; no Credit Card Policy	20

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Bangor Commission
820 Second Street
Bangor, Michigan 48725

Independent Auditor's Report

I have audited the financial statements of the Bangor Housing Commission's Business Type Activities as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bangor Housing Commission as of September 30, 2006, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 22, 2007 on my consideration of the Bangor Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

May 22, 2007

**Bangor Housing Commission
Management, Discussion & Analysis
For Fiscal Year Ending September 30, 2006**

The purpose of this MD & A is to serve as a basic tool for reading and understanding the financial statements of the Housing Commission. The information presented here should be viewed in conjunction with the Commission's financial statements. The Housing Commission's books are reported using the full accrual method, which means that all revenues and expenses are taken into account regardless of when cash is received and/or paid out. The programs are funded directly by the United States Department of Housing and Urban Development.

The following summarizes the two programs that the Bangor Housing Commission operates on a daily basis.

Low Rent Public Housing

The Housing Commission completed its development in 1988 and currently owns 44 units that are provided to elderly/disabled and low-income individuals. The Commission is responsible for management, maintenance, utilities and various other tasks associated with operating the project. Each year, the Housing Commission applies for Operating Subsidy, which is funded at a level determined by HUD. In addition to tenant revenue, interest income and other miscellaneous income, the subsidy is used to provide safe and affordable housing to residents.

Capital Fund

The Housing Commission is awarded this grant each year, based on HUD's available funding. It is used to for physical improvement of the property and surrounding landscape. It may also be used for equipment such as dwelling equipment, office, maintenance and community room equipment. PHA's also have the option of drawing down funds in a line item called Operations.

Financial Highlights for the FY

** The assets of the PHA exceeded its liabilities at the close of the year by \$1,223,134.

** At the close of the fiscal year, the PHA's operating revenues totaled \$236,134 while the operating expenses totaled \$191,115.

** The PHA's cash and investment balances increased by \$7,144 for FYE 09/30/06 due to the additional revenue and CFP funds drawn down in operations.

** The increase in fixed assets, before depreciation, was \$36921 due to the addition of completed CFP work items.

** Accounts payable increased by \$13610 due to the accruals of casualty loss and CFP work items completed before the FYE.

** The majority of the excess revenue over expenses for the current year is due to the fact that the PHA drew down CFP funds. The PHA did not draw down any CFP funds in FYE 09/30/05.

The financial statements included in this report are those of a non-profit enterprise fund engaged in a business-type activity. The following statements are included:

- Statement of Net Assets - reports on the Commission's current financial resources with capital and other assets and long-term debt obligations and other liabilities.
- Statement of Revenues, Expenses and Changes in Fund Net Assets- reports the Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- Statement of Capital Assets

Statement of Net Assets

Assets	2006	2005	Change
Cash/Investments	115,448	108,304	7,144
Other Current Assets	16,907	18,701	-1,794
Capital Assets, Net	1,132,130	1,155,523	-23,393
Total Assets	1,264,485	1,282,528	-18,043
Liabilities			
Accounts Payable	17,518	3,908	13,610
A/P-Other Gov't	6,200	6,544	-344
Other Current Liabilities	15,308	12,571	2,737
NonCurrent Liab.	2,325	3,683	-1,358
Total Liabilities	41,351	26,706	14,645
Net Assets			
Invested in Capital Assets	1,132,130	1,155,523	-23,393
Unrestricted Net Assets	91,004	100,299	-9,295
Total Net Assets	1,223,134	1,255,822	-32,688

Total Assets for FYE 2005 total \$1,264,485, which is \$18,043 less than FYE 2005. Total Liabilities for FYE 2006 total \$41,351, which is \$14,645 more than FYE 2005.

Net Assets decreased \$84,386 from 2005 to 2006 due mainly to depreciation.

Statement of Revenues, Expenses and Changes in Fund Net Assets

Opr Revenues	2006	2005	Change
Tenant Revenue	102,554	101,289	1,265
Opr Grants/Subsidy	74,022	68,217	5,805
Misc Revenue	10,106	9,006	1,100
Total Operating Revenues	186,682	178,512	8,170
Opr Expenses			
Administration	58,553	54,273	4,280
Tenant Services	3,200	2,153	1,047
Utilities	33,736	30,366	3,370
Maintenance	74,450	78,418	-3,968
General	21,176	21,118	58
Depreciation	75,878	78,258	-2,380
Ext Maint/Cas Losses	1,829	0	1,829
Total Expenses	268,822	264,586	4,236
Opr Income/(Loss)	-82,140	-86,074	3,934
Nonoperating Revenues			
Interest Income	3,483	1,688	1,795
Income (Loss) before contributions/transfers	-78,657	-84,386	5,729
Capital Grants	45,969	0	45,969
Change in Net Assets	-32,688	-84,386	51,698
Total Assets-Beginning	1,255,822	1,340,208	-84,386
Total Assets-Ending	1,223,134	1,255,822	-32,688

The total increase in revenue is approximately 32% and is due to additional Operating Subsidy and draw down of Capital Fund grants this fiscal year. Tenant Revenue, Interest Income and Other Revenue also increased this year. The total increase in operating expenses is 3% with increases in all categories except Maintenance and Depreciation. The largest increases were in Tenant Services, Gas and Bad Debt-Tenants. Gas rates were extremely high and will continue to be high again in FYE 2007.

Statement of Capital Assets

Land and Improvements	455,659
Buildings and Improvements	1,847,654
Equipment	83,557
Total Fixed Assets	2,386,870
Less: Accumulated Depreciation	1,254,740
Net Fixed Assets/Invested in Capital Assets	1,132,130

There were increases in building improvements in the amount of \$23,853 and land in the amount of \$30,375 for the fiscal year ended September 30, 2006. The PHA purchased additional property through the 2003 CFP. The current year depreciation expense was \$75,878. The net effect of fixed asset purchases/disposals less depreciation is a decrease in net fixed assets of \$23,393.

The Housing Commission's financial success is dependent on operating and capital grants received from the US Dept of HUD. Without them, the Bangor Housing Commission could not survive. There are various local economic factors that could affect the Commission's profit or loss, such as local employment opportunities, supply and demand for local jobs and inflationary adjustments to utilities and other local suppliers.

The Housing Commission continues to remain relatively consistent on their PHAS scores, with some work needed in the areas of expense management and tenant receivables. In spite of decreasing capital and operating grants, the Bangor Housing Commission will continue to do the best job they can in providing safe, sanitary and decent housing for their residents.

Contacting The Commission's Financial Management

This report was written to provide readers with a general overview of the Commission's finances and the manner in which it spends the revenue it receives. If you have questions about this report or need additional financial information, contact the Executive Director at 820 Second Street, Bangor, MI 49013, or call (269) 427-5535.

BANGOR HOUSING COMMISSION
Statement of Net Assets
September 30, 2006

ASSETS

C-8045

CURRENT ASSETS

Cash	\$	44,077	
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$ 4,528)		479	
Investments		71,371	
Prepaid Expenses		15,449	
Accrued Interest Receivable		<u>979</u>	
Total Current Assets	\$		132,355

NON CURRENT ASSETS

Land	\$	137,464	
Buildings		1,847,654	
Furniture, Equipment- Dwellings		26,146	
Furniture, Equipment- Administrative		57,411	
Leasehold Improvements		318,195	
Accumulated Depreciation		<u>(1,254,740)</u>	
Total Non Current Assets			<u>1,132,130</u>

TOTAL ASSETS \$ 1,264,485

BANGOR HOUSING COMMISSION
Statements of Net Assets
September 30, 2006

LIABILITIES

C-8045

CURRENT LIABILITIES

Accounts Payable	\$	17,518	
Accrued Wages & Payroll Taxes		1,616	
Accrued Compensated Absences		1,744	
Accounts Payable-Other Governments		6,200	
Deferred Revenue		1,169	
Tenants Security Deposit		<u>10,779</u>	
<u>Total Current Liabilities</u>	\$		39,026

NONCURRENT LIABILITIES

Accrued compensated Absences		<u>2,325</u>	
<u>Total Liabilities</u>	\$		41,351

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	1,132,130	
Unrestricted Net Assets		<u>91,004</u>	
<u>Total Net Assets</u>	\$		<u>1,223,134</u>
<u>Total Liabilities and Net Assets</u>	\$		<u>1,264,485</u>

The Accompanying Notes are an Integral part of the Financial Statements

BANGOR HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended September 30, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$ 102,040	
Tenant Revenue-Other	514	
HUD Grants	74,022	
Interest Income	3,483	
Other Income	<u>10,106</u>	
<u>Total Operating Revenue</u>		\$ 190,165

OPERATING EXPENSES

Administrative	\$ 58,553	
Tenant Services	3,200	
Utility Expenses	33,736	
Ordinary Maintenance	74,450	
General Expenses	<u>21,176</u>	
<u>Total Operating Expenses</u>		<u>191,115</u>
<u>Operating Income (Loss)</u>		\$ <u>(950)</u>

NONOPERATING REVENUE (EXPENSES)

Extra Ordinary Maintenance	\$ (1,390)	
Casualty Losses-non capitalized	(439)	
Depreciation Expenses	<u>(75,878)</u>	
<u>Total Nonoperating Revenue (Expenses)</u>		\$ <u>(77,707)</u>
<u>Income (Loss) before Contributions</u>		\$ (78,657)

CAPITAL CONTRIBUTIONS

		<u>45,969</u>
<u>Changes in Net Assets</u>		\$ (32,688)
Total Net Assets- Beginning		<u>1,255,822</u>
Total Net Assets- Ending		\$ <u>1,223,134</u>

The Accompanying Notes are an Integral part of the Financial Statements

BANGOR HOUSING COMMISSION
Statement of Cash Flows
For the Year Ended September 30, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 100,581
Payments to Suppliers	(109,830)
Payments to Employees	(65,482)
HUD Grants	119,991
Other Receipts (Payments)	<u>13,589</u>
Net Cash Provided (Used) by Operating Activities	\$ 58,849

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(54,227)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 4,622
Balance- Beginning of Year	<u>39,455</u>
Balance- End of Year	\$ <u>44,077</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (32,688)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	75,878
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	2,455
Prepaid Expenses	661
Changes in Liabilities Increase (Decrease):	
Accounts Payable	5,818
Accrued Expenses	(100)
Accounts Payable- Other Governments	6,200
Security Deposits	572
Deferred Revenue	<u>53</u>
Net Cash Provided by Operating Activities	\$ <u>58,849</u>

The Accompanying Notes are an Integral part of the Financial Statements

BANGOR HOUSING COMMISSION
Notes to Financial Statements
September 30, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Bangor Housing Commission, Bangor, Michigan, (Commission) was created by ordinance of the city of Bangor. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 181	Low rent program	44 units
--------	------------------	----------

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Cash Equivalents

The composition of cash and cash equivalents are as follows:

Cash:

General Fund Checking Account	\$ 23,650
Petty Cash	150
Savings Account	<u>20,277</u>
Financial Statement Total	<u>\$ 44,077</u>

Investments:

Certificates of Deposit	<u>\$ 71,371</u>
-------------------------	------------------

Notes to the Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 23,650	\$	\$	\$ 23,650	\$ 23,650
Petty Cash	150			150	150
Savings Accounts	20,277			20,277	20,277
Total Cash	\$ 44,077	\$	\$	\$ 44,077	\$ 44,077

Investments:

Certificates of Deposit	\$ 71,371	\$	\$	\$ 71,371	\$ 71,371
----------------------------	-----------	----	----	-----------	-----------

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	Beginning of Year	Additions	Deletions	End of Year
Land	\$ 107,090	\$ 30,374	\$	\$ 137,464
Buildings	1,823,801	23,853		1,847,654
Furniture & Equipment-Dwellings	27,760		1,614	26,146
Furniture & Equipment-Admin	63,230		5,819	57,411
Leasehold Improvements	328,069		9,874	318,195
	\$ 2,349,950	\$ 54,227	\$ 17,307	\$ 2,386,870
Less Accumulated Depreciation	1,194,426	75,878	15,564	1,254,740
	\$ 1,155,524	\$ (21,651)	\$ 1,743	\$ 1,132,130

Note 4: Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to the Financial Statements- continued

Note 5: Prepaid Expenses

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 5,007
Prepaid Inventory	<u>10,227</u>
Financial Statement Total	<u>\$ 15,234</u>

Prepaid insurance represents premiums paid prior to year end to cover risks in future periods.

Prepaid inventory consist of materials and supplies, stated at cost, for minor repairs to units.

Note 6: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 3,040,676
General Liability	1,000,000
Automobile Liability	300,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: Coverage's required by the State of Michigan	

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Bangor Housing Commission

30-Sep-06

MI-181

	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	44,077		44,077
112	Cash - restricted - modernization and developmen		-	-
113	Cash - other restrictec			-
114	Cash - tenant security deposit	-	-	-
100	Total cash	44,077	-	44,077
	Accounts and notes receivables			
121	Accounts receivable - PHA project			-
122	Accounts receivable - HUD other project		-	-
124	Accounts receivable - other governmer			-
125	Accounts receivable - miscellaneou	-	-	-
126	Accounts receivable- tenants - dwelling reni	5,007		5,007
126.1	Allowance for doubtful accounts - dwelling reni	(4,528)		(4,528)
126.2	Allowance for doubtful accounts - othe	-		-
127	Notes and mortgages receivable- curren			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivabl	979		979
120	Total receivables, net of allowances for doubtful account	1,458	-	1,458
	Current investments:			-
131	Investments - unrestrictec	71,371		71,371
132	Investments - restrictec			-
142	Prepaid expenses and other asset	5,222	-	5,222
143	Inventories	10,227	-	10,227
143.1	Allowance for obsolete inventorie	-	-	-
144	Interprogram - due from	-	-	-
146	Amounts to be providec			-
150	TOTAL CURRENT ASSETS	132,355	-	132,355
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	107,089	30,375	137,464
162	Buildings	1,834,399	13,255	1,847,654
163	Furniture, equipment & machinery - dwelling	24,706	1,440	26,146
164	Furniture, equipment & macinery - admininstratio	57,061	350	57,411
165	Leasehold improvement:	318,195	-	318,195
166	Accumulated depreciator	(1,254,239)	(501)	(1,254,740)
160	Total fixed assets, net of accumulated depreciatio	1,087,211	44,919	1,132,130
171	Notes and mortgages receivable - non-curren			-
172	Notes and mortgages receivable-non-current-past du			-
174	Other assets			-
175	Undistributed debit:			-
176	Investment in joint venture:			-
180	TOTAL NONCURRENT ASSETS	1,087,211	44,919	1,132,130
190	TOTAL ASSETS	1,219,566	44,919	1,264,485

	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	17,518	-	17,518
313	Accounts payable > 90 days past due		-	-
321	Accrued wage/payroll taxes payable	1,616	-	1,616
322	Accrued compensated absence	1,744	-	1,744
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA program			-
332	Accounts Payable - PHA Project			
333	Accounts payable - other government	6,200	-	6,200
341	Tenant security deposits	10,779	-	10,779
342	Deferred revenues	1,169	-	1,169
343	Current portion of Long-Term debt - capital project		-	-
344	Current portion of Long-Term debt - operating borrowing			-
345	Other current liabilities	-		-
346	Accrued liabilities - other	-		-
347	Inter-program - due to	-	-	-
310	TOTAL CURRENT LIABILITIES	39,026	-	39,026
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital project			-
352	Long-term debt, net of current- operating borrowing			-
353	Noncurrent liabilities- other	-		-
354	Accrued Compensated Absences- Non Current	2,325		2,325
350	TOTAL NONCURRENT LIABILITIES	2,325	-	2,325
300	TOTAL LIABILITIES	41,351	-	41,351
	EQUITY:			
501	Investment in general fixed asset			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guarantees	-	-	-
504	Net HUD PHA contributions	-		-
505	Other HUD contributions			-
507	Other contributions	-		-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	1,087,211	44,919	1,132,130
	Reserved fund balance			-
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-
512.1	Unrestricted Net Asset	91,004		91,004
513	TOTAL EQUITY	1,178,215	44,919	1,223,134
600	TOTAL LIABILITIES AND EQUITY	1,219,566	44,919	1,264,485

- - -

Bangor Housing Commission

30-Sep-06

MI-181

Combining Income Statement		Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	REVENUE:			
703	Net tenant rental revenue	102,040		102,040
704	Tenant revenue - other	514	-	514
705	Total tenant revenue	102,554	-	102,554
706	HUD PHA grants	65,028	54,963	119,991
708	Other government grants			-
711	Investment income - unrestricted	3,483	-	3,483
712	Mortgage interest income	-		-
714	Fraud recovery			-
715	Other revenue	10,106		10,106
716	Gain or loss on the sale of fixed asset			-
720	Investment income - restricted			-
700	TOTAL REVENUE	181,171	54,963	236,134
	EXPENSES:			
	Administrative			
911	Administrative Salaries	36,400	-	36,400
912	Auditing Fees	1,700		1,700
913	Outside management fee			-
914	Compensated absence	386		386
915	Employee benefit contributions-administrative	9,245	-	9,245
916	Other operating administrative	10,220	602	10,822
	Tenant services			
921	Tenant services - salaries	-	-	-
922	Relocation costs		-	-
923	Employee benefit contributions- tenant service	-	-	-
924	Tenant services - other	3,200	-	3,200
	Utilities			
931	Water	8,705	-	8,705
932	Electricity	11,055	-	11,055
933	Gas	13,976	-	13,976
934	Fuel			-
935	Labor			-
937	Employee benefit contributions- utilities			-
938	Other utilities expense	-		-
	Ordinary maintenance & operation			
941	Ordinary maintenance and operations - labor	29,082	-	29,082
942	Ordinary maintenance and operations - materials & other	11,892	-	11,892
943	Ordinary maintenance and operations - contract cost	22,650	5,688	28,338
945	Employee benefit contributions- ordinary maintenance	5,138	-	5,138
	Protective services			
951	Protective services - labor			-

952	Protective services- other contract cost	-		-
953	Protective services - othe			-
955	Employee benefit contributions- protective service			-
	General expenses			
961	Insurance premiums	11,718	-	11,718
962	Other General Expense		550	550
963	Payments in lieu of taxes	6,200		6,200
964	Bad debt - tenant rent	2,708	-	2,708
965	Bad debt- mortgages			-
966	Bad debt - other			-
967	Interest expense		-	-
968	Severance expense	-		-
969	TOTAL OPERATING EXPENSES	184,275	6,840	191,115
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(3,104)	48,123	45,019
971	Extraordinary maintenance	-	1,390	1,390
972	Casualty losses - non-capitalize	439		439
973	Housing assistance payment			-
974	Depreciation expense	75,377	501	75,878
975	Fraud losses			-
976	Capital outlays- governmental fund	-		-
977	Debt principal payment- governmental fund			-
978	Dwelling units rent expense			-
900	TOTAL EXPENSES	260,091	8,731	268,822
	OTHER FINANCING SOURCES (USES)			
1001	Operating transfers in (out)	1,313	(1,313)	-
1002	Operating transfers out			
1003	Operating transfers from/to primary government			
1004	Operating transfers from/to component unit			
1005	Proceeds from notes, loans and bonds			
1006	Proceeds from property sales			
1010	TOTAL OTHER FINANCING SOURCES (USES)	1,313	(1,313)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(77,607)	44,919	(32,688)
		-	-	-
		-	-	-
		-	-	-
				-
				-
				-
				-
		-	-	-
			-	-
			-	-
			-	-
		-	-	-
		-	-	-

BANGOR HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2006

The prior audit of the Bangor Housing Commission for the period ended September 30, 2006, contained one audit finding; the corrective action taken by the Commission is as follows:

1) Service Organization Report- no SAS 70 Report

The auditor issued a repeat finding on the Service Organization (Fee Accountant) for not having a Statement on Auditing Standards (SAS) 70 report. A SAS 70 report is an audit of the Organizations systems of internal controls.

The Service Organization is not required to have a SAS 70 report; HUD has not required such a report and has indicated to the auditor their position, and yet, the auditor felt compelled to re-write the finding. The auditor's responsibility in an audit is to satisfy himself that if the Auditee relies solely on the Service Organizations reports, that the Organization has sufficient internal controls to prepare the financial statements; one such method of review would be a SAS 70 report that indicates whether the Service Organization's internal controls are sufficient. However, if the Auditee takes responsibility for the financials statements and has its own analytical procedures of review, then there is less reliance placed on the Service Organization and the auditor does not have to conduct a review of the internal controls. The auditor has alternative methods to review a Service Organization's internal controls if deemed necessary other than a SAS 70 Report, but those methods may be difficult and time consuming- nonetheless, there are alternative methods available to the auditor as stated in the SAS 70 pronouncement.

I believe the auditor unfairly qualified the opinion of the Auditee based either on his misunderstanding of SAS 70, his inability to satisfy himself with alternative procedures, or his reluctance to perform those other procedures; HUD agrees with this assessment as they have responded to the auditor and Auditee that the finding had no merit and closed the finding.

BANGOR HOUSING COMMISSION
Report on Compliance with Specific Requirements
Applicable to Non Major HUD Program Transactions
September 30, 2006

I have audited the financial statements of Bangor Housing Commission, Bangor Michigan, as of and for the year ended September 30, 2006, and have issued my report dated May 22, 2007.

In connection with that audit and with my consideration of the Commission's internal control used to administer HUD-assisted programs, as required by the Consolidated Audit Guide for Audits of HUD Programs (the Guide), issued by the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, I selected certain transactions applicable to certain nonmajor HUD-assisted programs for the year ended September 30, 2006.

As required by the Guide, I performed auditing procedures to test compliance with the requirements governing the Commission's grants that are applicable to those transactions. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Commission's compliance with those requirements. Accordingly, I do not express such an opinion.

Material instances of noncompliance consist of failures to follow the specific requirements referred to above that caused me to conclude that the misstatements resulting from those failures are material to the Commission's grants. The results of my tests disclosed the instances of noncompliance that are described in the accompanying schedule of findings and questioned costs that are required to be reported herein under the Guide.

I considered those material instances of noncompliance in forming my opinion on whether the Commission's financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, and this report does not affect my report dated May 22, 2007, on those financial statements.

This report is intended solely for the information of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant
Hemlock, Michigan
May 22, 2007

BANGOR HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2006

I have audited the financial statements of Bangor Housing Commission, Bangor, Michigan, as of and for the year ended September 30, 2006, and have issued my report thereon dated May 22, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bangor Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: finding 06-1, 6-2, 6-3, and 6-4.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Bangor Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Bangor Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant
Hemlock, Michigan
May 22, 2007

BANGOR HOUSING COMMISSION
Schedule of Findings and Questioned Cost
September 30, 2006

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted Yes X No

Reportable condition(s) noted Yes X No

Non Compliance material to financial statements noted Yes X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted Yes X No

Reportable condition(s) noted X Yes No

Non Compliance material to financial statements noted Yes X No

Thresholds

Dollar limit used to determine type A & B programs- \$ 300,000

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Program	No	None	06-1, 06-2, 6-3, 6-4
Capital Fund Project	No	None	None

BANGOR HOUSING COMMISSION
Schedule of Findings
September 30, 2006

The following finding of the Bangor Housing Commission, for the year ended September 30, 2006, were discussed with the Executive Director, Mr. David Markel, in an exit interview conducted May 22, 2007.

Finding 1: Segregation of Duties

A significant control deficiency exists with the internal control over cash. SAS 112 requires either a segregation of duties or compensating controls to minimize the impact of the deficiency.

Recommendation

Most smaller organizations have a segregation of duties problem due to the size of the staff, however, compensating controls could be imposed to minimize the impact of the lack of segregation of duties.

The Bangor Housing Commission staff consists of a full time director and a part time secretary; the secretary collects non cash payments, the director collects both non cash payments and occasionally cash payments. The director prepares the deposit and takes the deposit to the bank.

Since the director collects and deposits all cash payments, a lack of segregation of duties over cash payments exists.

Due to the size of the organization, no segregation of duties over cash payments is possible; however, the Commission could consider going to a non cash position, thereby eliminating the deficiency. I recommend the Commission consider going to a no cash policy.

Reply

The Bangor Housing Commission will follow the recommendations and adopt a no cash policy for collection of rent.

Finding 2: Excess Tenants Accounts Receivable

The Commission's average outstanding tenant accounts receivable is \$ 113 per unit; the prior year average was \$ 69 per unit. HUD prescribes an average of \$ 15 per unit to be reasonable.

Recommendation

The Commission's tenants accounts receivable balance has almost doubled in the past year; bad debts have not been written off in a timely manner, and uncollectible accounts have not been successfully pursued through a collection agency or by any court activity.

I recommend the Commission implement it's collection policy, and adopt a policy for follow-up on uncollectable accounts. Once a tenant has been evicted or moves out, efforts should be made to collect the past due balance; use of a collection agency may result in some repayment.

The current level of tenant accounts receivable is unacceptable; the Commission needs to review its collection policy and enforce it- efforts to collect past due balances after eviction should also be aggressively pursued.

Reply

The Bangor Housing Commission will follow the recommendations and adopt a rigorous policy for collection of money owed by vacated and evicted tenants. We will turn outstanding debts over to collection agency after thirty days and will write off as bad debts after sixty days of termination of tenancy. The Housing Commission will also try to move evictions through the courts faster if possible to cut down on the time nonpaying tenants may live in a unit and reduce additional charges that they leave behind like water bills that exceed the City of Bangor \$ 150. deposit.

Finding 3: Tenant Accounting Discrepancies

The following discrepancies were noted during the review of files:

Five files were tested, none of the files contained a form 214- citizenship form; 4 of 5 did not contain a rent choice form; 4 of the 5 lacked proper income verification, and none contained a community service exemption form.

Recommendation

The Commission consist of 43 units, and although the sample was small, it represented 12 % of all files. The above missing forms are required by HUD, and income verification is a basic requirement to accurately calculate tenant rents.

I recommend the Commission obtain proper training for the staff and implement procedures to insure compliance with HUD requirements concerning tenant accounting. The files tested should be corrected with the next re-exam.

Reply

The Bangor Housing Commission will follow the recommendations to make sure that all tenant files are complete, containing all necessary verification and documentations (214-citizenship forms, income verification, rent choice form and community service exemption form).

Finding 4: Policies out of date; no credit card policy.

Several Commission policies need to be updated, for example, the travel policy still refers to mileage reimbursement at a rate of \$.24/mile; Commission is reimbursing at a rate of \$.40/mile. In addition, no credit card policy exists and the Commission does have/use a credit card.

Recommendation

As stated above, the policies are outdated; travel refers to the wrong rate, personnel policy needs updating, several policies were either non-existent or unavailable- credit card, investment, disposition, etc.

I recommend the Commission review all the Commission policies and update/create were necessary to be in compliance with HUD requirements.

Reply

The Bangor Housing Commission will follow the recommendation to get out dated policies up dated. The Housing Commission will create necessary policies to meet and be in compliance with HUD requirements.